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Carolyn Forestiere
University of Maryland

Riccardo Pelizzo
Singapore Management University, riccardop@smu.edu.sg

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Dynamics in Legislative Budgeting in Italy: 1982-2001

Carolyn Forestiere, Riccardo Pelizzo

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Dynamics in Legislative Budgeting in Italy: 1982-2001

Carolyn Forestiere (University of Maryland at Baltimore County) and
Riccardo Pelizzo (Singapore Management University)

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Abstract

For much of the First Republic, the Italian Parliament was notorious for its fiscal irresponsibility. However, using data over a 20-year period we note that the performance of the Parliament during the passage of the national budget changed over time. During most the 1980s the Parliament always spent more than the amount specified in the government's Budget Bill. But this trend slowed towards the late 1980s, and of particular interest is that for several years during the 1990s the Parliament voted to spend less than what the government originally proposed. We explain this anomaly using institutional theories and contextual explanations.

Introduction

Scholars have generally argued that governments in parliamentary systems fully control budgetary politics. In fact, in spite of the fact that parliaments may have the formal power to amend and approve the government budget proposal, parliaments' role in the budget process is generally constrained not only by institutional dispositions concerning what parliaments are actually entitled to change in the budget but also and more importantly by political considerations. A parliament that fails to approve the government budget is effectively stating that the government no longer enjoys the confidence of the parliament and should be replaced. Possible as this scenario may be, it is not terribly common. Parliaments and parliamentary majorities approve government budget bills with only minor changes and governments can legitimately expect legislative deference on budgetary matters. However, under particular institutional and political conditions parliaments and parliamentarians may be provided with incentives to interfere with their government's budgetary proposals.¹ Scholars believe that this parliamentary interference in budgetary matters is generally fiscally irresponsible and leads to higher levels of spending. We call this argument the conventional wisdom of parliamentary budgeting (Tsebelis 2002:205).

The transformation of the Italian parliament's role in the budget process is particularly interesting in assessing the validity of these theoretical arguments. Looking at the 1982-2001 period, we note that the way the Italian Parliament treated the government's budget changed over time. During most of the 1980s, the Parliament actively and aggressively challenged government proposals, leading to much greater

¹ North (1990) explains how and why institutional factors influence the incentive structures that political actors face when making their decisions.

amounts of overall spending as one would expect in the light of the conventional wisdom. Yet, and more importantly, this trend came to an end beginning in the late-1980s and was even reversed for some years in the 1990s. We believe that this transformation should not be viewed as yet another instance of the (in)famous Italian exceptionalism. We believe instead that understanding the changing role that the Italian parliament has played in the budget process can shed some light as to whether, why and under what conditions the conventional wisdom does actually provide an accurate explanation of what parliaments actually do to the budget, but it also and more importantly illustrates that the conventional wisdom cannot be applied *urbi et orbi*.

The purpose of this paper is to investigate patterns of legislative-induced changes to budgetary bills in Italy between 1982 and 2001. In doing so, we will show that while in the 1980s the Italian Parliament greatly modified the budget and that the changes were fiscally irresponsible (meaning that the parliament passed a budget that spent *more* than the government's original proposal), in the following decade the parliament-induced changes were much smaller and were in some instances fiscally responsible (meaning that the parliament passed a budget that spent *less* than the government's original proposal). As this apparent paradox cannot be explained on the basis of the conventional wisdom, we think it is worthwhile investigating why the parliament made changes to the budget not only in degree (increasing spending by a lot vs. increasing spending by a little) but also in kind (increasing overall spending vs. decreasing overall spending). After presenting data concerning the parliament-induced changes in the budget, we will present an explanation as to why these changes occurred. In this respect, we argue that this transformation occurred because of the interactions of both institutional and contextual

factors. Specifically, with the transformation of parliamentary rules, electoral reform, the signing of the Maastricht treaty and the collapse of the so called First Republic, Italian MPs could no longer afford to be fiscally irresponsible.

The paper is organized in four parts. Part One reviews the comparative literature of the Parliament's role in the budget process. In this part we show that while different scholars have underlined the importance of different institutional arrangements to explain whether and to what extent the parliament is able to modify the budget, they all share a common view that posits four major claims: 1) that the government is generally in control of the budget process; 2) that specific institutional arrangements affect the role that parliament is able to play in the budget process; 3) that as the number of actors allowed to influence the budget increases, fiscal irresponsibility also increases; and 4) that if the parliament is allowed to influence the budget, this parliamentary influence will lead to greater fiscal irresponsibility. In Part Two, we will discuss how this set of institutional arguments applies to the Italian case. In doing so we will show that the Italian parliament's ability to modify the budget was greatly enhanced by very specific procedural mechanisms such as secret voting and legislative agenda setting. We will also show that as these mechanisms were eliminated or reformed, Italian MPs were confronted with a new set of incentives that made interference with the government budget proposal more costly. This is why we claim that the magnitude of the parliament-induced changes to the government budget proposal diminished in the 1990s. In Part Three we will argue that while institutional arguments can be successfully used to explain why the role of the parliament in the budget process diminished in the 1990s, institutional change is by itself insufficient to explain why some of the parliament-induced changes to

the budget were actually fiscally responsible for several years during the 1990s. We will argue that because of the specific transformation of the contextual conditions within which the Italian parliament was operating, fiscal irresponsibility became too costly an option for Italian MPs who were hence induced in passing more austere budgets. In the fourth and final section of the paper, we will draw some conclusions as to the meaning of our findings.

Part One: Parliaments and the Budget

The annual budget, which details how revenue is to be generated and spent, is probably the single most important document a government produces. Because parliamentary influence generally leads to greater spending, in most countries parliament's role is purposively restricted by either institutional design or by political considerations.²

In the first respect, the comparative literature on the role of the legislature for national budgeting generally argues that legislative institutions have something to do with the government's ability to protect the content of its budget. In other words, procedures available in the legislature matter a great deal. This is because the more institutions allow a greater number of actors to influence budgetary politics, the more difficult it is to bring budget deficits under control (Poterba and Hagen 1999). For example, some budgetary procedures such as the timing of voting or amendments procedures (Alesina and Perotti

² Each parliament's ability to examine, amend, modify, confirm, and approve the budget is constrained by both institutional and political factors (Schick 1993; Alt and Lowry, 2000; Wehner 2004). On the institutional side, in many countries Parliament's ability to alter the government's budget is subject to extensive procedural limits (Herman and Mendel, 1976; International Centre for Parliamentary Documentation, 1986). For example, in the UK, Parliament can amend tax proposals, but cannot increase spending (OECD, 1998). In Germany, parliamentarians' ability to modify the budget is constrained by budget regulations as well as by the expenses generated by current legislation (Wehner, 2001). On the other hand, there are countries, such as Belgium and Canada, where there are no institutional limits on Parliament's ability to amend the budget. In these cases, parliament's primary job in budgetary politics is to review and pass the government's bill.

1999) can create iterative collective action problems in which individual legislators from the government and opposition continually find incentives to defect from austerity agreements and secure narrow benefits for particular constituencies. This occurs at the expense of collective fiscal austerity.

Scholars have also underlined the importance of other institutional mechanisms in determining the extent to which parliaments can modify the budget. In this regard Krafchick and Wehner argue that the impact a legislature can have on the budget depends on the formal design of amendment powers in the legislature, the scope of conferred powers to change the budget (restricted, unrestricted, or balanced budget), and the role of legislative committees (Krafchik and Wehner 1998). Specifically, Krafchik and Wehner emphasize that the interaction between these institutional levers structures incentives for legislative interference. In their comparative analysis, the authors find that “an effective amendment system must combine conferred powers with an entrenched role for committees” for an understanding of when parliaments can realistically influence national budgeting (ibid: 517). Thus, though some legislatures may grant generous amendment procedures within parliament, without conferred powers to alter the budget and an effective committee system the true ability of parliament to alter financial legislation is limited as in Australia. Conversely, where generous amendment procedures are grouped with conferred powers to alter the budget and an effective committee system, there exists a real possibility for parliament to alter financial legislation as in Germany.

The main theme in this literature is that when procedurally permitted, legislatures can frustrate governments by altering budget bills and that parliament-induced changes in the budget are inevitably fiscally irresponsible.

Part Two: The Italian case: Budget, Parliament and Institutional Structure

Twenty years of parliament-induced changes to the Italian budget tell a partially different story. The data presented in Table 1 show the percentage difference between the government's proposal and the parliament's passed law for the total amount spending in the Budget Bill. If there were no parliamentary influence to the government's proposed amount to spend, the percentage difference between the original bill and final law would be zero. In such a case, the assumption is that the parliament did not change the bill at all. By contrast, changes between the original budget bill and the final law suggest that the parliament has extensively amended the government budget proposal.

Table 1. *Italian Budget Laws for 1982 to 2001. Figures indicate the total amount of spending for each year in billions of lire.*

For Year	PROPOSED by Government	PASSED by Parliament	Percent Difference
1982	135460	164087	17%
1983	172772	203510	15%
1984	227077	242321	6%
1985	274163	297597	8%
1986	280900	334543	16%
1987	311432	358997	13%
1988	368360	414814	11%
1989	388562	406271	4%
1990	456202	445655	-2%
1991	498505	509594	2%
1992	541967	559556	3%
1993	612696	588981	-4%
1994	563208	549658	-2%
1995	611073	611390	0%
1996	647486	637007	-2%
1997	633348	642245	1%
1998	634393	653414	3%
1999	658278	672500	2%
2000	673282	679779	1%
2001	700646	725944	3%

These data show quite clearly that the Italian parliament has never acted as a ‘rubber stamp’ on financial policy at all; instead there were many times that the Italian Parliament actively challenged the government’s budget.

The Italian Parliament’s ability to modify the government budget proposal raises two questions: first, what factors allowed the parliament to modify the budget? And second, are all the parliament-induced changes of the budget bill fiscally irresponsible as the conventional wisdom generally argues?

Let’s begin with the second question first. Were all parliament-induced changes in the budget fiscally irresponsible as assumed in the literature? It depends. If we look at the data from the 1981-1988 period, the Italian case is in line with the conventional wisdom. The Italian parliament was able to profoundly alter the government budget proposal, and these changes were all fiscally irresponsible. But if we look at the data from 1990 onward, the Italian case becomes somewhat exceptional in the light of the traditional expectation. The parliament-induced changes became much smaller and were, in several years, fiscally responsible, meaning that the parliament agreed to spend less than what the government originally proposed. Hence, while the evidence concerning the 1981-1988 period is consistent with the conventional wisdom, the data after 1990 point in the direction of a sort of Italian exceptionalism.

In the light of this possible exceptionalism, one should reformulate the first question. Instead of asking what factors allowed the Italian Parliament to modify the budget, we should ask two new questions, based on the fact that there was a difference in both the degree and kind of changes made to the budget before and after 1990: a) what factors were responsible for the parliament’s ability to modify the budget and to pass

fiscally irresponsible budgets in the 1980s?; and b) what factors are responsible for the parliament's new role in the budget process in the 1990s?

The Old Story

Let us begin with addressing question a). The reason why the Italian Parliament was able to manipulate the budget between 1981 and 1988 is consistent with what the institutional literature, that we have previously recalled, has underlined: the Parliament's ability to modify the budget depends on very specific institutional and procedural factors. The Italian case, in the 1980s, was no exception to this rule. Indeed, for most of the history of the First Republic, the budget was procedurally open to parliamentary influence. This stands in contrast to other countries that deliberately restrict the exposure politicians can have to the budget's content. Below we describe two unique procedures that explain in part how Italian parliamentary politicians could change the budget so effectively and almost easily. These include the provision for secret voting and an inclusive agenda setting process in parliament.³ In recognition of the damaging effects these institutions had for financial austerity, beginning the late 1980s the Parliament ultimately decided to reverse some of these institutions to restrict the magnitude of legislative influence. In turn these changes have significantly influenced the pattern of parliamentary influence in the budget.

Until 1988, the Standing Orders of parliament allowed secret voting. This means that before 1988, there is no official record on how each MP voted in Parliament. Only the number and names of those present and voting were recorded and counted.

³ For an interesting discussion of the importance of agenda setting see Doering (2001).

Consequently it is not possible to gather any information as to whether an individual MP voted yes, no, or abstained for all secret votes.⁴ Though the government should have had enough support to pass its bills, the government was often defeated (and embarrassingly so) many times on key bills – including budget bills – during the First Republic. This problem often stalemated the executive and caused numerous governments to collapse. Ironically, these stalemates occurred during times of oversized government, when the government should have been able to garner enough support from the legislature to pass its bills. But once a government lost a vote, party whips from the government parties could not know who was responsible for the defeat.

The use of the secret vote is important to understand how parliament was able to influence budgetary legislation for so long before the rules for voting changed. Before 1988 government party members could defect from party mandates without sanction from the party. These same government party members could then go on to log-roll with other government party members or even members of opposition parties to pass particularistic pork-style legislation for their own constituencies to ensure re-election. But again, since no official record was kept the government could not formally reprimand individual defectors.

A second procedural factor that undermined governments' ability to control their majorities and protect their budget involved the procedures concerning parliamentary agenda setting. In 1971 the Italian Parliament passed reforms to implement a unique agenda setting formula that extended veto power to a leader from each parliamentary group during the determination of the legislative agenda and calendar. The vote rule for

⁴ Italian MPs can either abstain or partake in parliamentary votes. If they participate in votes, they have three options: yes, no or abstention, which means voting neither yes or no. On these issues see Landi and Pelizzo (2006).

this group was unanimity: every party leader (including those from the opposition) had to agree to the parliamentary agenda, otherwise parliament would have no calendar. This unique rule gave opposition party leaders considerable leverage over what issues would be discussed in both committees and on the floor, and perhaps more importantly, the timetable and procedures for debate and voting (for example the agenda setting group could determine in advance if a vote would be subject to the secret ballot or not).

Setting the parliamentary agenda is an extremely important tool to manipulate public policy. The agenda details which issues will be discussed and how much time will be allotted to each issue. The timing of voting is equally important as well. For example, in 1986 the Italian government suffered a significant setback when the order of voting for the Financial Bill was discussed.⁵ The Minister of the Treasury from the Christian Democratic Party wanted to vote on the total spending amount in Article 1 *first* in order to set an upper cap for spending, but the opposition parties argued their preference to vote on other articles first and on Article 1 *last*. The opposition clearly did not want to limit the amount of money Parliament could commit to spending, and knew that it could, through subsequent amendments, raise the overall amount as long as a ceiling was not already set. The crucial point is that the agenda setting process in the Italian Parliament allowed the opposition to hold the government hostage. They prohibited the government from imposing a voting timetable unattractive to the opposition. As a result the government was ultimately defeated, the overall amount of spending from the government's original proposal increased, and the Finance Law was passed two months

⁵ The Financial Bill sets the upper limit of what the government is willing to finance for spending above its traditional sources of income.

late. Writing in 1988, before any reforms to the agenda setting process had passed, della Sala argued:

The important point about this discussion on what seems to be a technical point is that it highlights the fact that the government has few guarantees over the fate of its program once it reaches Parliament... The government was defeated over an issue it saw as crucial for achieving its objectives primarily because it had few levers which it could pull once the bill reached Parliament. (della Sala 1988:121).

Granting opposition party leaders control over agenda setting clearly prohibited governments from imposing unattractive budget bills, even when the first preference of the government may have been to introduce more austerity.

It would be a mistake to consider these particular institutions as the only ones responsible for parliament's ability to alter the budget. Other institutions, such as the committee system, should also be considered.⁶ In many ways, these additional

⁶ Another significant institutional factor empowering Parliament was Italy's pre-1993 electoral system. Until 1993, when it was reformed by the laws 276/93 and 277/93, the Italian electoral system was a Proportional Representation system (Fusaro, 1995; Katz, 1995; Katz, 2001). This PR was coupled with preference voting, which allowed voters to express their preference for specific candidates. Voters had the possibility to express up to three or four such preferences until 1991, when, in the wake of the referendum the number of preferences that voters could express on the ballot was reduced to only one (Pasquino, 1993; Pasquino, 1996). The PR system with single preference (*preferenza unica*) was used only in the 1992 elections. The preference voting in both its pre-1991 and its post-1991 version affected the political behavior of voters as well as of the elected officials. Candidates were concerned not only within between-parties competition but also within-parties competition with their fellow party candidates. This is important because it gave individual MPs strong incentives to secure constituency benefits and to gain popularity and name recognition. The more benefits an MP managed to secure for her potential voters the more preference votes the MP could expect to receive in the next election. Because of the preference vote, opposition members knew that engaging in collaborative activities with members of other parties could result in increased constituency benefits for all MPs. With the removal of the secret vote in 1988, the passage of reforms in 1990 to allow the President of the Chamber to impose a parliamentary agenda, and the

procedures had interactive effects with the provision for secret voting and the inclusive agenda setting process. Once the excessive use of the secret vote was removed and once agenda control was returned to government's majority in Parliament, these additional institutions had less 'bite'. But they still exist within the Parliament (in other words, they haven't been reformed) and one institutional level in particular should be mentioned because of how it was used before the reforms removed the secret vote and opposition agenda veto.

This third institutional element involves parliamentary committees. While there are different types of committees⁷, the *sede legislativa* (legislative committee) is the most interesting and involves a set of unique procedures. Assignment of a bill to the *sede legislativa* means that a committee is given permission to pass a bill directly, without referral to plenary for final approval. The procedure obviously gives these committees a great deal of deciding power.

When the parliamentary agenda was determined by unanimous consent of all party leaders, it was possible for the opposition parties to hold bills hostage until the group decided to allow a bill to be decided by a legislative committee. And they had great reason for doing so. Since a bill would not have to be referred back to the plenary for a

introduction of the single preference 1991, the system of incentives was dramatically transformed. The benefits of defecting had declined because the costs of defecting had increased. The cost of defecting increased even more after the 1993 electoral reform and the ensuing transformation of the Italian party system. Therefore, if institutional theories are correct in arguing that institutions provide actors with incentives to engage or not in certain activities, then as the institutional changes made defections from party lines more costly for Italian MPs, the parliament's influence on the budget bill was bound to decline because MPs were less willing to risk exposure.

⁷ As it is known, in Italy there are four types of committees 'sittings' to which a bill may be referred during the agenda setting process. The first three involve investigative and reporting functions. There is the *sede referente* (reference committee) in which committees are asked to deliver a report for a bill that will be debated in the future in the chamber. Similarly, there is the *sede redigente* (writing committee) in which committees are asked to deliver a report for a bill that is currently being debated in the chamber. The *sede consultiva* (consultative committee) is used when a committee is asked to deliver a report to another committee. The last is the *sede legislativa* (legislative session).

final decision, a small group of legislators could develop collaborative techniques to ensure passage of their own particularistic legislation. Indeed, a study in 1977 revealed that almost all issues are decided with *unanimous* consent in these committees (di Palma 1977). This pattern of logrolling among committee members put more and more pressure on the budget. Spending generally increased each time a legislative committee passed a measure.

With the ability to defect from party lines without running the risk of being caught and possibly punished through the use of the secret vote, MPs from the government coalition had little incentive to preserve the (more or less) fiscally austere measure proposed by the government that they were supposed to support. Furthermore, with the ability to contribute to the setting of the agenda and with the power of keeping bills hostage (before they were actually referred to a committee or within the committee itself), opposition parties were in a position to collaborate with government party members that allowed them all to exercise some influence in the drafting of the budget, to get measures beneficial to their constituents approved, and to make the budget even more fiscally irresponsible.

The New Story

The data from the 1990s onward, as we mentioned before, tell a very different story. The parliament's ability to alter the government budget proposal diminished dramatically and some parliament-induced changes in the budget were actually fiscally responsible. What factors are responsible for these changes?

Institutional reforms played a considerable role in this respect. Reforms of some of the procedural mechanisms noted above that had provided an incentive for parliament's major and fiscally irresponsible role in the budget process provided MPs with an incentive to be more fiscally responsible.

Before 1988, one of the key factors that provided MPs with an incentive to defect from party lines or from the lines of the government coalition was that defecting was possibly beneficial and virtually costless. One could enjoy the benefits from defecting without the risk of paying the price for breaking party lines because voting was secret and it was literally impossible to know how individual MPs had voted on a bill. However, once reform legislation passed in 1988 abolished the provision of secret voting (except for very special circumstances such as for a vote of no confidence) the dynamics of the Parliament changed dramatically. The open vote (*il voto palese*) is now required for the great majority of all bills, including budgetary bills. This means that any defections from government party mandates can now be identified and potentially punished. The data presented in Table 1 confirm that this one institutional change had its intended effect. As the cost of defecting increased, MPs became more loyal to their government. The amount of difference between the government's original proposal and the parliamentary passed law dropped from 11% to 4% in just one year, from 1988 to 1989. Clearly fewer government party MPs were willing to go against their own parties to secure particularistic benefits. Removing the secret vote forced government party members to respect the demands of their whips.

Agenda setting was the second procedure that was responsible for the Italian parliament's ability to modify the government budget proposal and to pass fiscally

irresponsible measures. Agenda setting procedures were also modified in the 1990s to remove the opposition's veto. Currently, the President of the Chamber of Deputies imposes an agenda when a unanimous vote does not pass. Therefore, because the government could finally take control over the fate of their own bills, parliament's ability to influence the budget declined.

In sum, reforms to the use of secret voting and inclusive agenda setting that had allowed so much parliamentary interference for so many years had their intended effects. Parliament's ability to amend the budget declined noticeably.

Part Three: Fiscal responsibility and new contextual conditions

Institutional arguments explain why the role of the Italian parliament in the budget process became less pronounced after 1988. But we are still left with a puzzle. Reforms to the institutions alone do not explain why the government's budget became more fiscally responsible in parliament for several years during the 1990s. This finding is inconsistent with the conventional wisdom which argues that parliamentary changes to the budget bill are always increase the amount of spending. How do we explain this anomaly?

Part of the answer for why the parliament behaved more responsibly in the 1990s could begin with an acknowledgement of the extreme fiscal irresponsibility created by the creative accounting of Bettino Craxi's political machine (*craxismo*) and the five-party coalitions that dominated Italian governments for many years (*pentapartito*). Such fiscal irresponsibility may have been so extensive that it could not possibly be surpassed. There

is obviously some truth in this explanation. But this argument provides an incomplete answer. The reason why the Italian parliament became more fiscally responsible cannot be entirely reduced to a reaction against the fiscal irresponsibility of the previous years. Why would parliamentarians, who have always considered the passing of irresponsible budgets acceptable, modify their preferences as to what kind of budget should actually be passed? Why would Italian MPs feel the need to react against the fiscal irresponsibility of the previous years?

Our answer is that while the parliament's ability to modify the budget bill does indeed depend generally on institutional and political factors for reasons we have explained, parliamentary officials ultimately decided to change their own behavior because of very specific contextual factors. These contextual factors include both domestic and international realities that Italian politicians had to face. We admit that these factors are difficult to quantify in comparative context, nonetheless they are extremely important and greatly explain why at a very specific point in time Italian legislators had strong collective incentives to induce financial austerity.

With the fall of the Berlin wall and the collapse of the Communist regime in Soviet Union, the Italian Communist Party that had posed an electoral threat to the Christian Democratic rule for many decades also underwent a significant process of transformation. This process was marked by the creation of the Democratic Party of the Left (*Partito Democratico della Sinistra* PDS) and later by the creation of the Democrats of the Left (*Democratici di Sinistra* DS). The process of transformation of the PCI into new political parties was eventful because the established parties could no longer justify reckless spending to prohibit the perceived threat from coming to power. In other words,

the large left wing party was no longer considered an anti-system, uncoalitionable party (Sartori 1976). Now it was a real contender and as such the fairly corrupt governing parties could not use budgetary power to distribute constituency-level pork in exchange for electoral support.

A second change occurred in 1991 with the signing of the Maastricht treaty. The creation of the European Union and the introduction of a European single currency had strong implications for the Italian political system. The countries willing to join the EMU had to respect the convergence criteria set in the Maastricht Treaty, which spelled out very specific requirements.⁸ In the beginning in the early 1990s, virtually all Italian political parties (including the Northern League, who would later become fervently anti-European) were in favor of joining the EMU. This political consensus was matched by a large favorable majority in the Italian electorate. The need to respect or at least to converge toward these criteria had a remarkable impact on the Italian parliament's ability to shape the budget. All political actors were now under some pressure to approve a budget bill that could help Italy respect/approach the convergence criteria.

A third change occurred in 1992. In 1992, systemic corruption of the Italian political system was uncovered. The Bribesville scandal (*Tangentopoli*), revealed by the investigations of the Clean Hands Movement (*Mani Pulite*), effectively put an end to the existence of the main parties of the First Republic and to the career of many prominent politicians. The discovery of Bribesville sparked major anti-party (and anti-politicians) sentiments in the Italian population. In essence Italian voters wanted to start over. They

⁸ To join the EMU, the Maastricht Treaty required a public deficit of less than 3 per cent of GDP, a public debt of less than 60 per cent of GDP, exchange rate stability, an inflation rate that could not exceed more than 1.5 per cent the average of the three states with the lowest inflation, and long-term interest rates not exceeding by more than 2 per cent the average of the three states with the lowest interest rates.

wanted Italy to join Europe with the hope that Italian/EU politicians would be more competent and more honest than traditional Italian politicians. Furthermore, they wanted the economic benefits as well. The Euro-zone gave many Italians, and especially Italian entrepreneurs, the illusion that new, larger markets could be conquered and more profits could be made—among other reasons because by having a single currency, one no longer had to pay the fees for exchanging one currency into another. To say whether the European Union and the single currency have delivered all the good things that Italian voters had hoped for is beyond the purpose of this paper. But one thing is clear: Italian voters wanted the single currency, they wanted to be in what was to become the Euro-zone, and they wanted the politicians to take the necessary steps to respect the convergence criteria.

Under these circumstances, with a crumbling political system, with a very dissatisfied society, with considerable pressure to join Europe, and with some strict criteria to respect, a highly de-legitimized political class could not afford to make mistakes: they had to pass a fiscally responsible budget. Their own electoral success depended on it.

Contextual conditions are extremely difficult to quantify comparatively however we believe that in this case the story of the budget cannot be understood without reference to these specific historical circumstances. The political story concerning the traditional tension between the Italian Communists and traditional governing parties (the Christian Democrats and the Italian Socialists especially) and the presence of certain institutional procedures available in parliament help us understand *how* the budget was open to parliamentary influence for so long. But the historical context of the 1990s helps

us understand *why* MPs ultimately decided to curb their own spending behavior in the interest of financial austerity. Clearly the economic threat coming from a perceived concern that Italy would not meet the criteria for the Maastricht Treaty compelled MPs to modify their own behavior. Here we believe that the collective benefit of austerity greatly outweighed any benefits individuals could receive. Taken together, these factors explain why national budgeting in Italy was so dramatically modified, both in degree and in kind.

Conclusions

We have argued that the conventional wisdom concerning parliaments' role in budgeting suggests that parliamentary interference leads to less fiscally responsible budgets. Parliaments – and the individuals within them – generally want to secure benefits for either themselves or their constituencies. While this may be true across many parliaments, our data suggest a significant anomaly in the Italian case. During most of the 1980s, the Italian Parliament indeed served to increase significantly the overall amount the government could commit to spending. We have argued that the parliament's ability to amend the budget so dramatically was contingent on very specific institutional factors such as the provision for secret voting and an inclusive agenda setting process. These particular procedures interacted with other institutional factors to provide extreme incentives for MPs to change the budget recklessly for their own benefits. In the 1980s, MPs greatly used these institutional resources to their advantage and as a result the parliament continually passed irresponsible budgets. While this story is interesting in its own right, such parliamentary interference is not unexpected. Our empirical observations

fit theoretical expectations: in the 1980s, institutional mechanisms allowed parliaments to change government proposals and this extensive parliamentary influence led to more financially irresponsible budgets.

But something curious happened in the late 1980s and early 1990s, and something completely unexpected happened later in the 1990s. First, in the late 1980s the Parliament stopped passing irresponsible budgets. While the Parliament was still involved in raising the overall levels of spending, the degree of this influence was greatly lowered. We argue that this reduction was due to the removal of the specific procedural mechanisms that for so many years had allowed such extensive parliamentary influence. Here theories of “new institutionalism” ring very true: changes in the institutional structure of a parliament produced changes in parliamentary outcomes. Here the outcome relates to the degree of parliamentary influence in the national budget. The budget was still modified to spend more, but the degree to which the parliament was able to increase the budget was dramatically lowered.

But a second change occurred in the mid-1990s, when the Parliament decided to change the budget, not to spend more, but to spend *less* than the government’s original proposal. This completely defies expectation and turns the conventional wisdom about parliamentary influence on its head. Here parliamentary interference led to less spending. In this respect we argued that while institutional changes were responsible for reducing MPs ability to modify the budget, specific contextual factors were responsible for making Italian MPs more fiscally responsible. We argue that understanding the contextual story is very important for an appreciation of the pressure Italian MPs were under to bring the budget under control. In this respect we underlined the importance of changes both at the

international and domestic levels. On the international front, the drive to participate in the new European economic system provided immediate reasons to induce austerity. At the same time, the balance of world power had changed and the stalemate between the Communists and governing parties was finally relieved. Rather than simply serving as an impossible alternative to government, new left-wing parties became potential government candidates. This meant that the traditional parties could no longer use their hegemonic power to secure particularistic benefits that would guarantee their own re-election. Suddenly incentives for collaborative behavior to secure particularistic benefits became constrained. Furthermore, on the domestic front corruption scandals involving all the established parties fatigued voters, who wanted to welcome a new type of politics. They were no longer willing to reward irresponsible politicians with their vote.

The intersection of these contextual factors – the fall of international Communism, the drive to participate in Europe, and the domestic revelation of the magnitude of political corruption – combined at a particular point in Italian political history. Italian MPs could no longer afford to pass irresponsible budgets. The outcome, both to them as individuals and to Italy as a whole, would be too costly. For these reasons they greatly defied expectation and passed budgets that actually spent less than what their governments had proposed.

We believe our story has implications, not only for the Italian context, but for others potentially as well. We have shown that the conventional wisdom concerning the relationship between parliamentary influence and budgetary outcomes is generally true most of the time. However, we believe we have also shown that parliamentarians can be given incentives to change their own behavior and defy expectations, as long as the cost

of not changing their behavior is high enough. In this case, the trend of reckless spending might have cost Italy a valuable place in the new European economic system. For Italians, this would have been devastating. While such big moments are not normally expected in a parliament's yearly cycle, we believe one lesson of our story suggests that increasing globalization might compel both governments and parliaments to respect particular economic parameters, even when their first preference may be to secure more for themselves. Global considerations may thus trump individual preferences and serve to introduce increased austerity in national budgeting, despite the institutional or political framework in which parliaments operate. In such a case, the conventional wisdom of parliamentary influence needs to be qualified.

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